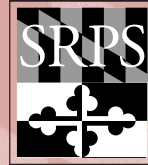


Retiree News & NOTES



STATE RETIREMENT
and PENSION SYSTEM
of MARYLAND

JULY 2006
VOL. 24 NO. 2

A Newsletter for Retirees from the State Retirement & Pension System of Maryland

Your Board of Trustees: Representing the interests of members and retirees

WHILE YOU ENJOY RETIREMENT, as a participant in the Maryland State Retirement and Pension System, you can be assured that the Board of Trustees of the State Retirement and Pension System is diligently making sure your current and future benefits are secure.

Your Board of Trustees plays an important role in the stewardship of your retirement system. Some of the Board's responsibilities include:

- Setting policies regarding the management of the System's multi-billion dollar investment portfolio,
- Overseeing the administration of the State Retirement Agency, and

See Your Board of Trustees, page 4

Trustee election results to be posted on Web

THE RESULTS OF THE RECENT TRUSTEE ELECTION FOR THE STATE POLICE RETIREMENT SYSTEM were announced July 18. This newsletter was sent to press prior to that date. Log on to the State Retirement Agency's Web site at www.sra.state.md.us for election results. The newly-elected trustee will represent active and retired troopers on the State Retirement and Pension System Board of Trustees.

Pension System retirees' COLA capped at 3%

ELIGIBLE RETIREES WILL RECEIVE A SLIGHTLY LARGER RETIREMENT PAYMENT in July as the annual cost-of-living adjustment (COLA) takes effect.

This year's adjustment has been set at 3.393%. For the first time in several years, this COLA rate exceeds the cap in place for retirees of the Pension Systems (see question two).

Answers to retirees' most common COLA questions are provided below.

Q. Who qualifies to receive the COLA this July?

A. A retiree who has completed at least one year of retirement as of July 1, 2006, qualifies for this year's COLA. Those who retired after July 2005 (August 2005 or later) will receive their first COLA increase in July 2007.

The annual COLA does not apply to most legislative or judicial retirees. Retirees from the legislative and judicial systems receive adjustments based on the increases received by active legislators and judges.

Q. Does my system limit its COLA?

A. Certain State Retirement and Pension System plans limit the COLA rate a retiree may receive. Although the rate for 2006 is 3.393%, retirement law caps the COLA at 3% for Pension System retirees. Review the following list to determine if your COLA will be capped this year.

- Employees' and Teachers' Contributory and Non-Contributory Pension System
3.0% cap
- Employees' and Teachers' Retirement System
Plan A - No cap
Plan B - 5.0% cap
Plan C - A dual calculation applies: no cap or a 5.0% cap on funds paid out under the retirement system and a 3.0% cap on the portion paid out under the pension system.
- State Police Retirement System
No cap
- Correctional Officers' Retirement System
No cap
- Law Enforcement Officers' Pension System (LEOPS)
3.0% cap (LEOPS retirees who transferred from Plan A or Plan B of the Employees' Retirement System and did not elect the contributory Law Enforcement Officers' Modified Pension Benefit have either no cap [Plan A] or a 5.0% cap [Plan B].)
- Judges' Retirement System
Retired judges receive a COLA based on increases received by sitting (active) judges.

See Pension System retirees' COLA capped at 3%, page 4

How employment affects your retirement check

FOR RETIREES OF THE STATE RETIREMENT AND PENSION SYSTEM (SRPS),

certain types of employment are subject to an earnings limit. Reemployment rules discussed here apply for most retirees. Special rules apply for retired judges, legislators, State Police and law enforcement officers. Contact the Retirement Agency for details.

EARNINGS LIMITS

If your compensation from employment after retirement exceeds your earnings limit, your benefit may be reduced. Prior to accepting work with *any* participating employer, you must notify the Retirement Agency in writing of your anticipated earnings.

Your earnings limit is printed on the *Notice of Retirement Allowance* that you received upon retirement.

WHO IS SUBJECT TO AN EARNINGS LIMIT?

All service retirees, returning to work for the same employer, are subject to an earnings limit. There must be at least **45 days** between your last day on payroll and the date you are rehired by the same employer. All units of Maryland State government, including the University of Maryland, are considered to be one employer.

If a service retiree returns to work for a different employer, only early service retirees within the first 12 months of retirement are subject to an earnings limit.

Service retirees are exempt from earnings limits after nine full calendar years of retirement. (This exemption does not apply to retired judges or legislators.)

SPECIAL EXEMPTION FOR TEACHERS AND PRINCIPALS

A service retiree from the Teachers' Systems is exempt from earnings limits if he or she returns to work for the same employer as a classroom teacher, substitute classroom teacher or teacher mentor in a public school:

- That is not making adequate yearly progress or is a school in need of improvement as defined under the federal No Child Left Behind Act (NCLBA) of 2001, or
 - Is receiving funds under NCLBA, or
 - Provides an alternative education program for adjudicated youths or students who have been expelled, suspended or identified for suspension or expulsion from public school
- AND
- Teaches in an area of critical shortage, or a special education class for students with special needs, or a class for students with limited English proficiency, or
 - Is hired to teach any subject or class or provide educational services under a special limited provision granted to the superintendent
- AND
- Is or has been certified to teach in the state,
 - Has verification of satisfactory or better performance in last assignment prior to retirement,
 - Has been appointed in accordance with §4-103 of the Education Article, and
 - If receiving an early retirement benefit, has been retired at least 12 months.

Earnings limits do not apply to a retiree who was employed as a principal within a certain period before retirement AND is rehired as a principal at a public school meeting the requirements listed here. During the period of reemployment, the retiree's performance must be satisfactory.

SPECIAL EXEMPTION FOR HEALTH CARE PRACTITIONERS

Retirees from the Employees' Systems who are receiving a service retirement benefit are exempt from an earnings limit if employed by the Department of Health and Mental Hygiene as contractual health care

practitioners in certain state facilities or local health departments for not more than four years.

SPECIAL EXEMPTION FOR CORRECTIONAL OFFICERS

Retirees from the Correctional Officers' Retirement System who are receiving a service retirement benefit are exempt from an earnings limit if employed on a contractual basis for not more than four years as correctional officers in correctional facilities defined in §1-101 of the Correctional Services Article.

RULES FOR DISABILITY RETIREES

Ordinary disability retirees who accept employment with a *participating* employer are subject to an earnings limit until they reach normal retirement age for their system. Ordinary disability retirees reemployed by a *non-participating* employer and accidental disability retirees are exempt from earnings limits.

A disability retirees' monthly allowance shall be temporarily suspended if the retiree:

- Retired on or after July 1, 1998,
- Is *not* eligible to receive a normal service retirement **and**
- Is employed by a participating employer at an annual compensation at least equal to his or her average final compensation at time of retirement.

Note: Disability retirees from the State Police Retirement System, Law Enforcement Officers' Pension System, Local Fire and Police System and Employees' Retirement and Pension Systems (former law enforcement officers employed by an employer that participates in the Law Enforcement Officers' Pension System only) are exempt from the earnings limit and suspension if reemployed by a participating employer in any position other than a probationary status law enforcement officer, a law enforcement officer or chief, as defined in §3-101 of the Public Safety Article.

Auditors find agency in compliance

THE OFFICE OF LEGISLATIVE AUDITS RECENTLY COMPLETED A COMPLIANCE AUDIT of the Maryland State Retirement Agency for the period July 1, 2002 through November 20, 2005. The audit evaluated the Agency's internal controls, and its compliance with statutes, policies and procedures. The audit results were very positive and had no major findings.

Additionally, Clifton Gunderson LLP recently performed an assessment of the Agency's controls over benefits administration, including enrollments, payroll data and contributions, and the payment of benefits. Clifton Gunderson found no deficiencies that would pre-

vent reasonable assurance that the Agency is complying with regulations, operating efficiently, and preparing accurate financial statements. Clifton Gunderson also provided training in internal controls to Agency staff.

Lastly, as part of an ongoing effort to maintain well-defined management accountability and responsibilities, Deloitte & Touche recently performed an Agency-wide risk assessment. They identified and measured key risks, developed a plan for responding to those risks, and provided management training to Agency personnel on risk assessment and risk management issues. All identified risks have an associated plan in place to mitigate operational impact.

Information for retirees considering reemployment

IF YOU ARE CONSIDERING REEMPLOYMENT WITH THE SAME EMPLOYER FROM WHOM YOU RETIRED, then you need to be aware of the following important information.

There can be significant consequences to you and the State Retirement and Pension System if you retire before the normal retirement age of your plan and/or before age 59½, and are reemployed with the same employer without a bona fide separation of service. Please note that all units of Maryland state government, including the University of Maryland System, are considered one employer.

The Internal Revenue Service (IRS) can impose a significant tax penalty on your income if you are

under the age of 59½, retire and begin receiving your monthly retirement benefits, and are reemployed by the same employer from whom you retired. In order to avoid this penalty, there must be a bona fide separation from service between you and your former employer.

If you retire before your normal retirement age, there are also serious tax consequences to the State Retirement and Pension System if a bona fide separation from service does not take place following retirement and prior to reemployment with the same employer.

While the IRS has not specifically defined what constitutes a bona fide separation from service, it is clear that the more differences between your last job before retirement and the job being performed upon your

reemployment, and the longer the break between the date of your retirement and the date of your reemployment, the more likely it is that there has been a bona fide separation from service. If you are reemployed to perform the same job, even if there is a reduction in your work schedule, this would likely not qualify as a bona fide separation from service unless there was a lengthy break in employment. Even arrangements where you are rehired as an "independent contractor" may not meet the IRS standard.

If after retirement you consider reemployment with your former employer, you may wish to review and discuss this information with the employer and your tax advisor. Failure to do so could result in a significant tax penalty on your income.

Changing tax withholdings? Follow these handy tips

RETIREES WHO WISH TO UPDATE THEIR TAX WITHHOLDING ELECTIONS must file a combined *Federal and Maryland State Tax Withholding Request* (Form 766) covering both federal and state taxes.

Form 766 revokes all prior federal and state tax withholding elections. For example, if you previously requested federal and state tax withholdings and now submit a new request indicating only state tax, your prior federal tax withholdings will be cancelled. You must fill out both sections of the form *even if you wish to update only one portion of your withholdings*.

Under current federal law, you cannot only designate a specific dollar amount to be withheld for federal tax. You must first designate your marital status and number of allowances on line 2 of the form. Then you can designate an additional amount to be withheld on Part I, line 3 of Form 766.

Form 766 can be found on our Web site at www.sra.state.md.us or you can request the form by calling a retirement benefits counselor at 410-625-5555 or toll free 1-800-492-5909.

2006 Legislative update

THE 2006 MARYLAND GENERAL ASSEMBLY ENACTED A FEW BILLS OF SPECIAL INTEREST

to retirees of the State Retirement and Pension System. The following new legislation was effective July 1, 2006.

Chapter 392, Acts of 2006: Correctional Officers' Retirement System— Reemployment of Retirees (HB 1364)

Synopsis: Eliminates the earnings limit for service retirees of the Correctional Officers' Retirement System who are reemployed on a contractual basis for not more than four years as correctional officers in correctional facilities defined in § 1-101 of the Correctional Services Article.

Chapter 618, Acts of 2006: State Retirement and Pension System –

Administration – Simplification (HB 1430)

Synopsis:

- Requires retirees from the State Police Retirement System to have a break in service of at least 45 days before returning to work for any unit of Maryland State government.
- Eliminates the earnings limit for service or vested retirees of the Correctional Officers' Retirement System, State Police Retirement System and Local Fire and Police System who have been retired for nine years. This nine-year period begins on January 1 after the date of retirement unless the member retired effective January 1.
- Eliminates the requirement that disability retirees submit annual medical and earnings informa-

tion to the State Retirement Agency.

Chapter 479, Acts of 2006: State Retirement and Pension System – Disability Retirement (HB 1046)

Synopsis: Eliminates the earnings limit and suspension of benefits rules for disability retirees who were law enforcement officers in the Employees' Retirement and Pension Systems (employed by an employer that participates in the Law Enforcement Officers' Pension System) and Local Fire and Police System unless the retiree is reemployed by a participating employer as a probationary status law enforcement officer, law enforcement officer or chief. This exemption already exists for disability retirees from the State Police Retirement System and Law Enforcement Officers' Pension System.

Pension System retirees' COLA capped at 3%, continued from page 1

- Local Fire and Police System
3.0% cap (Retirees who transferred into this plan from the Employees' Retirement System are not subject to a cap.)

Q. How is the annual COLA increase calculated?

A. A retiree's benefit system determines how the annual increase is calculated for his or her payment. Eligible retirees receive either a **compound rate** or a **simple rate**. For retirees receiving the compound rate, the COLA increase is based on their **current** allowance, allowing COLAs to compound over time. Under the simple rate, the increase is based on the retiree's **initial** retirement allowance.

The **compound rate** applies for eligible retirees of the following systems:

- Employees' and Teachers' Contributory Pension System
- Employees' and Teachers' Retirement System
- State Police Retirement System
- Correctional Officers' Retirement System
- Law Enforcement Officers' Pension System

The **simple rate** applies for eligible retirees of the following systems:

- Employees' Non-Contributory Pension System
- Local Fire and Police System (For retirees who transferred into this plan from the Employees' Retirement System, the compound rate applies.)

Q. Which payment shows the new COLA increase?

A. Qualifying retirees will see the adjustment in their July 31, 2006 benefit payments.

Your Board of Trustees, continued from page 1

- Approving disability retirement cases recommended by the Medical Board or appealed by claimants to the Board.

The fourteen members of the Board of Trustees are either elected by the members of particular constituencies that participate in the system, appointed by the Governor, or serve on the Board because of their positions in Maryland State government (Comptroller, Treasurer, and Budget Secretary).

Profiles of the trustees are available on the State Retirement Agency Web site at www.sra.state.md.us/srps_trustees.htm. The site also lists each trustee's committee assignments and a schedule of the Board's meetings, which are open to the public.

Retiree News is published by
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Baltimore, MD 21202-6700
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1-800-492-5909
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